

COUNTRY PROFILE: IRAN

September 2004

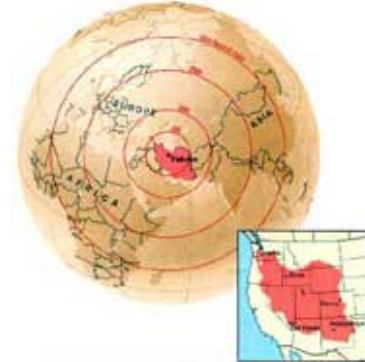
COUNTRY

Formal Name: Islamic Republic of Iran
(Jomhuri-ye Eslami-ye Iran).

Short Form: Iran.

Term for Citizen(s): Iranian(s).

Capital: Tehran.



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Other Major Cities: Ahwaz, Esfahan, Karaj, Kermanshah, Mashhad, Qom, Shiraz, and Tabriz.

Independence: In the modern era, Iran always has existed as an independent country.

Public Holidays: The national holiday, Islamic Revolution Day, celebrates the victory of the Islamic Revolution on February 11, 1979. Other official holidays are Dawn (the return of Ayatollah Khomeini from 14 years of foreign exile on February 1, 1979), Noruz (Iranian New Year, March 21), Islamic Republic Day (April 1), Thirteenth Day of New Year (April 2), and several Islamic religious holidays that are reckoned in accordance with the lunar calendar and thus do not re-occur on the same dates each year.

Flag:

The flag, adopted after the 1978–79 Revolution, features three horizontal bars, green (on top), white, and red, representing, respectively, Islam, peace, and courage. The bars are divided by stylized script. The white bar features a centered, red, abstract representation of the name Allah in the shape of a tulip.



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HISTORICAL BACKGROUND

Early History: The first Iranian state was the Persian Empire, which was established by Cyrus the Great, first of the powerful Achaemenid dynasty, in 546 B.C. The empire was conquered in 330 B.C. by Alexander the Great. The Greek presence was followed by two dynasties, the Parthians, who ruled from 247 B.C. until 224 A.D., and the Sassanids, who ruled from 224 A.D. until the Arabs conquered them in 642 A.D. The Arabs brought with them Islam, which eventually became the predominant religion. In the centuries that followed, Iran was ruled by a succession of Arab, Iranian, and Turkic dynasties. In the thirteenth century, the Mongol leader Genghis Khan invaded the disunified territory of Iran, and Mongol dynasties subsequently ruled Iran for nearly two centuries. In 1501 the Iranian Safavids created a strong centralized empire

under Ismael I and also established Shia Islam as the official religion. In the eighteenth century, Iran was weakened by civil wars, new dynasties came to rule, and a new regional rival, Russia, arose.

The Qajars and Pahlavis: In 1779 the Qajar family established a dynasty that would rule Iran until 1925. In the nineteenth century, Iran, under the Qajars, lost much of its territory in the Caucasus and Central Asia to Russia. During this period, influence in Iran was divided between Russia and Britain, Russia's chief Western rival in the region. Both powers interfered in local politics and forced Iran to make trade concessions. A popular desire for accountable government and resentment of intrusion by foreign interests led to the Constitutional Revolution of 1905–06 and the formation of a parliament. In 1909 the Anglo-Persian Oil Company was formed and assumed control of Iran's newly discovered oil deposits.

In 1921 army officer Reza Khan mounted a coup against the government; following parliament's deposition of the Qajar dynasty in 1925, he became shah of Iran. Reza Shah, as he became known, restored order and sought to modernize the economy and society and to forge cultural links abroad. However, in World War II his failure to cooperate with the Allied powers caused Britain and the Soviet Union to replace him with his son, who became Mohammed Reza Shah Pahlavi. In 1951 Mohammad Mossadeq, a deputy in the parliament, rode strong Iranian sentiment for nationalization of the oil industry to a position as prime minister. However, in 1953 Britain and the United States, which opposed the principle of oil nationalization at the time, forced the nationalist Mossadeq from power.

In the 1960s, Iran successfully recovered from the economic disruption of the oil nationalization period, but the authoritarian rule of the shah provoked political discontent. It was during this period that the Ayatollah Ruhollah Khomeini developed a following as an antigovernment leader and was sent into foreign exile (1964), first to Turkey and subsequently to Iraq. Between 1965 and 1977, Iran enjoyed improved prosperity, expanded regional influence, and relative stability. However, there was no liberalization of the political system, and repression coupled with resentment of an increased Western presence fueled a series of antigovernment protests in 1978. Meanwhile, Khomeini, from his exile base in Iraq, had emerged as the leader of an increasingly strong opposition movement, which organized nationwide strikes that effectively paralyzed the economy by late 1978. The military, experiencing mass desertions and the refusal of junior officers to act against strikers and demonstrations, was unable to protect the regime, and the shah was forced to leave the country, ostensibly for a medical rest. After the shah's departure, his government was unable to stem what had become a revolutionary tide. Khomeini returned from exile on February 1, 1979, refused to recognize the authority of the shah's prime minister, and appointed a provisional government. The monarchy effectively ended when the military announced its neutrality in the power struggle between the two governments.

The Islamic Republic of Iran: Following a national plebiscite, an Islamic Republic was proclaimed officially on April 1, 1979. The provisional government was composed of a coalition of nationalist and religious leaders who had moderate views with respect to social or economic changes. They were opposed by young militants who advocated radical changes in both domestic and foreign policies. In particular, the latter group wanted to end all ties with the United States. In November 1979, students affiliated with the latter group occupied the U.S.

Embassy in Tehran and held 53 U.S. diplomats as hostages for nearly 15 months. This incident led to the collapse of the provisional government and a decisive break in U.S.-Iranian relations. Between 1980 and 1988, serious differences between the moderate and militant factions of the revolutionary government were held in check by the need to maintain internal unity during an indecisive war with Iraq that resulted in 200,000 Iranian deaths.

In 1989 the death of Khomeini removed the one figure with authority to arbitrate between the two mutually antagonistic political factions of the postrevolutionary elite. Neither of the two factions constituted a homogeneous political group; rather, each comprised multiple ideological tendencies. In general, those whom the Western press labeled “reformers” advocated a liberal interpretation of the constitution and Islamic law but disagreed among themselves with respect to economic, political, and social policies. By contrast, those who came to be known as “conservatives” advocated the strict and literal interpretation of the constitution and Islamic law.

During the presidency of Ali Akbar Hashemi Rafsanjani (1989–97), reformers controlled a majority of seats in parliament until 1992 and supported Rafsanjani’s policies for economic reform and the normalization of relations with neighboring countries. The conservatives won a majority of seats in both the 1992 and 1996 parliamentary elections and subsequently used their position in the legislature to weaken or stop outright many reforms proposed by the Rafsanjani government and later by the administration of Rafsanjani’s successor, Mohammad Khatami, who was elected in 1997 and re-elected in 2001 to a four-year term. Reformers won a majority of seats in the 2000 parliamentary elections and then enacted several notable pieces of legislation, such as a law for the election of local councils in cities, towns, and villages. Having lost control of the parliament, conservatives tried to use their influence in the judiciary and bureaucracy to impede reforms they perceived as threatening their economic and/or political positions. Conservatives regained control of the parliament in the February 2004 elections. There has been relative consensus between the two factions on issues of foreign policy, even in the post-1992 period when internal politics have been increasingly contentious.

GEOGRAPHY

Location: Iran is located in the Middle East, between Turkey and Iraq on the west and Afghanistan and Pakistan on the east; it borders the Persian Gulf and Gulf of Oman in the south and Armenia, Azerbaijan, the Caspian Sea, and Turkmenistan in the north.

Size: Iran’s total area is 1.65 million square kilometers, of which 1.64 million square kilometers—an area slightly larger than Alaska—is land mass.

Land Boundaries: Iran is bounded by Afghanistan (936 kilometers), Armenia (35 kilometers), Azerbaijan proper (432 kilometers), Azerbaijan’s Nakhichevan enclave (179 kilometers), Iraq (1,458 kilometers), Pakistan (909 kilometers), Turkey (499 kilometers), and Turkmenistan (992 kilometers).



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Length of Coastline: Iran's coastline includes 2,440 kilometers on the Persian Gulf and Gulf of Oman and 740 kilometers on the Caspian Sea.

Maritime Claims: Iran's territorial sea extends 12 nautical miles and its contiguous zone, 24 nautical miles. The exclusive economic zone claimed by Iran is determined by bilateral treaties or median lines in the Persian Gulf. The maritime border with Iraq along the Shatt al Arab waterway was established by treaty in 1975 as the median line of the deep-water channel, but the final status of the treaty awaits the conclusion of a peace treaty to replace the 1988 cease-fire between Iran and Iraq. Iran and the United Arab Emirates (UAE) dispute sovereignty over three islands in the Persian Gulf that are occupied by Iran. In opposition to at least two of the other four littoral states, Iran advocates a division of the bed of the Caspian Sea that would give Iran control of an area about 20 percent greater than the area it would control under a division based on the actual length of each littoral state's coastline.

Topography: Iran has rugged, mountainous rims surrounding several basins that collectively are known as the central plateau. These basins vary in elevation from 900 to 1,525 meters. East of the central plateau are two large desert regions, a salt desert in the north and a rock and sand desert in the south. There are lowland areas along the Caspian coast, in Khuzestan Province at the head of the Persian Gulf, and at several dispersed locations along the Persian Gulf and Gulf of Oman coasts.

Principal Rivers: The main rivers are the Karun, which is 830 kilometers long; the Safid Rud, which is 1,000 kilometers long; the Kharkeh, which is 700 kilometers long; and the Zayandeh Rud, which is 400 kilometers long.

Climate: Iran's climate is mostly arid and semi-arid, with a humid, rain-forest zone along the Caspian coast. Temperatures average between 10° and 25° C in the winter and between 19° and 38° C in the summer.

Natural Resources: About 40 percent of Iran's territory is considered cultivable if irrigation is available, but because of the lack of water, less than 30 percent of that territory is cultivated. Iran has enormous reserves of oil and natural gas. Oil reserves are estimated at about 130 billion barrels (third in the world behind Saudi Arabia and Iraq), and natural gas reserves are estimated at 20 trillion cubic meters (second in the world to Russia). Mineral resources currently exploited are bauxite, chromium, coal, copper, gold, iron ore, red oxide, salt, strontium, sulfur, turquoise, and uranium.

Land Use: Of Iran's land surface, 27 percent is classified as meadows and pastures, 11 percent forest and woodland, and 8 percent arable land. The remaining 54 percent is desert or mountains.

Environmental Factors: Especially in urban areas, vehicle emissions, refinery operations, and industrial effluents contribute to poor air quality. Most cars use leaded gas and lack emissions control equipment. Tehran is rated as one of the world's most polluted cities. Much of Iran's territory suffers from desertification and/or deforestation. Industrial and urban wastewater runoff has contaminated rivers and coastal waters and threatened drinking water supplies. Wetlands and bodies of fresh water increasingly are being destroyed as industry and agriculture expand, and oil

and chemical spills have harmed aquatic life in the Persian Gulf and the Caspian Sea. Iran contends that the international rush to develop oil and gas reserves in the Caspian Sea presents that region with a new set of environmental threats. Although a Department of Environment has existed since 1971, Iran has not developed a policy of sustainable development because short-term economic goals have taken precedence.

Time Zone: Iran lies in one time zone, which is three and one-half hours ahead of Greenwich Mean Time.

SOCIETY

Population: In mid-2004, Iran's population was estimated at 69 million, of which about one-third lived in rural settlements and two-thirds in urban population centers. Population density was 41.7 people per square kilometer. Urbanization has been steady; in 1976 only 47 percent of the population lived in urban areas. In 2004 the annual population growth rate was 1.07 percent. Net migration in 2004 was -0.84 person per 1,000 population. In 2004 Iran hosted an estimated 2.1 million refugees, of which 1.85 million were from Afghanistan and 220,000 from Iraq.

Demography: According to a 2004 estimate, 25.7 percent of Iran's population was younger than 15, and only 6 percent was older than 64; the population was 51 percent male. In 2003 the overall life expectancy was 69.3 years: 68.1 years for men, 69.9 years for women. The birthrate was 17.1 per 1,000 population, the death rate 5.5 per 1,000 population, and the infant mortality rate 42.9 per 1,000 live births. Between 1979 and 2004, the fertility rate has decreased from about 7 to 1.9 children born per woman.

Ethnic Groups and Languages: The main ethnic groups in Iran are Persian (59 percent), Azeri (24 percent), Kurds (7 percent), Arabs (3 percent), Luri (2 percent), Baloch (2 percent), and Turkmen (2 percent). Persian, the official language, is spoken by 70 percent of the population. Other languages in use are Azeri, Turkish, and Turkic dialects (26 percent), Kurdish (7 percent), Arabic (3 percent), Luri (2 percent), Balochi (1 percent), and Armenian (1 percent). There were Azeri and Kurdish autonomy movements in the 1940s and a Kurdish autonomy movement in the period 1979-83.

Religion: The constitution declares Islam as the official religion of Iran. At least 90 percent of Iranians are Shia Muslims, up to 7 percent are Sunni Muslims, and 1 percent adhere to various Islamic sects such as the Ahl-e Haqq. Other religions are Bahaism (250,000 to 300,000 believers), Christianity (mainly Armenians and Assyrians, about 300,000), Zoroastrianism (30,000 to 60,000), and Judaism (20,000 to 30,000). The constitution recognizes Christianity, Judaism, and Zoroastrianism as legitimate minority religions. Individuals of all religions are required to observe Muslim law on dress and gender segregation in public. Individuals of minority religions are prohibited from serving in senior administrative positions in many government ministries. Bahaism is not recognized as a legitimate minority religion, and since 1979 Baha'is have experienced periodic bouts of persecution. In the early 2000s, Christians have been emigrating from Iran at the rate of 15,000 to 20,000 per year.

Education and Literacy: In 2003 the literacy rate of the population was 79.4 percent. The rate for males was 85.6 percent, and for females 73 percent. Under the constitution, primary education (between ages six and ten) is compulsory. The government reports that 95 percent of children receive primary and secondary education. Primary, secondary, and higher education is free, although private schools and universities charge tuition. All of Iran's 113,000 pre-collegiate public schools are single-sex above kindergarten. Universities are coeducational. Minority religions except Bahaism maintain schools, but supervisors must be Muslim, and an hour per week of Islam is a required subject, as in public schools. Iran has 107 public universities, into which entry is very competitive; more than 1 million students, 59 percent of whom were female, were enrolled in 2003–04. The Islamic Azad University, which has branches all over Iran, had 650,000 students in the 2003–04 academic year.

Health: The overall quality of public health care improved dramatically after the 1978–79 Revolution because public health has been a top priority of the government. The constitution entitles Iranians to basic health care, and most receive subsidized prescription drugs and vaccination programs. An extensive network of public clinics offer basic care at low cost, and general and specialty hospitals operated by the Ministry of Health provide higher levels of care. In most large cities, private clinics and hospitals charge high fees and are used by well-to-do persons. In the early 2000s, estimates of the number of physicians varied from 8.5 to 11 per 10,000 population. Specialized medical facilities are concentrated in urban areas, but rural communities have relatively good access to primary care physicians at clinics in villages, where the government-sponsored primary health care system has raised the level of health education and prenatal care since the late 1990s. Cardiovascular disease is the main natural cause of death. Opium and other drug addiction is a major health problem; in 2004 the number of drug addicts was estimated at 3.5 million. Two-thirds of Iran's cases of human immunodeficiency virus (HIV), estimated at as many as 27,000 in 2003, derive from drug use. Earthquakes regularly take several thousand lives. The Bam earthquake of December 2003 killed nearly 28,000 people.

Welfare: Iran's Ministry of Social Affairs supervises public programs for pensions, disability benefits, and income for minor children of deceased workers. Welfare programs for the needy are managed by more than 30 individual public agencies and semi-state organizations, as well as by several private non-governmental organizations. In 2003 the government began to consolidate its welfare organizations in an effort to eliminate redundancy and inefficiency. The largest welfare organization is the Imam Khomeini Social Assistance Committee, which delivers an estimated 92 percent of total welfare services, including aid in education, employment, shelter, and health. In the late 1990s, the extension of pensions to farming household heads over 60 effectively doubled the number of Iranians eligible for government pensions to more than 60 percent of the work force (self-employed persons in urban areas are the major group not covered). In 2003 the minimum pension was 50 percent of the worker's earnings, but not less than the amount of the minimum wage. In 2003 Iran spent 22.5 percent of its national budget on social welfare programs. More than 50 percent of that amount covered pensions. Considering all social welfare programs available, urban residents benefit more than does the rural population. Government workers are eligible for sickness, maternity, and work injury benefits, but few private employers provide these benefits.

ECONOMY

Overview: Iran's economy is dominated by the oil industry, which is part of the state sector. The state also owns and administers several large industries. The private sector includes automobile, textile, metal manufacturing, and food-processing factories as well as thousands of small-scale enterprises such as workshops and farms. The economic reform programs of presidents Ali Akbar Hashemi Rafsanjani (in office 1989–97) and Mohammad Khatami (elected in 1997 and re-elected in 2001) have aimed at making Iranian industry more competitive internationally. Measures have included selling off government enterprises, reducing subsidies, creating an equitable income tax system, and cutting high tariffs that protect local manufacturing from foreign imports. Private business interests have strongly opposed many reforms and have been able to block their enactment. About one-third of Iran's industrial output is controlled by semi-private charitable organizations called *bonyads*, which exert considerable influence on economic policy through their close links to influential politicians. Because 80 percent of export earnings come from oil and gas and accrue to the government as revenue, world prices for those commodities have a major impact on Iran's budget. Government economic planning is done in five-year plans, the third of which began in 2000.

Gross Domestic Product (GDP): In 2003 Iran's GDP was estimated at US\$477.8 billion in purchasing power parity terms. This figure was an increase of 6 percent over 2002 and amounted to about US\$7,000 per capita. In 2002 services contributed 55 percent, industry 26 percent, and agriculture 19 percent of GDP.

Government Budget/Deficit: In 2003 Iran's estimated revenues totaled US\$41.2 billion, and its estimated expenditures totaled US\$43.4 billion, including capital expenditures of US\$7.6 billion.

Inflation: In 2003 the inflation rate for consumer prices was estimated at 18 percent. The government's anti-inflationary policies have reduced inflation from the 1999 rate of 30 percent. The rates for 2000 and 2002 were 16 percent and 17.6 percent, respectively.

Agriculture, Forestry, and Fishing: Iran's diversity of terrain and climate enable cultivation of a variety of crops, but in 1998–2000 severe droughts cut agricultural production. Output has recovered slowly since, although many villages in eastern Iran have been abandoned, and consequently the area under cultivation has decreased since 2000. Iran is a net importer of grains, especially rice and wheat, and a net exporter of fruits, nuts, and various specialty crops. The main crops are wheat; rice; barley; pistachio nuts, almonds, hazelnuts, walnuts, and other nuts; oilseeds; legumes; dates; citrus and other tree fruits; grapes; melons; vegetables; saffron; sugar beets; tea; cotton; and tobacco. About one-third of agricultural income comes from livestock; with the exception of sheep and goats, which are raised by pastoral nomads, most livestock is raised on small farms.

Iran has a long tradition of fishing in the Caspian Sea, in the Persian Gulf, and on inland rivers. The government company, Shilat, establishes fishing quotas and buys fish for processing. Most of the actual fishing is undertaken by small-scale, private fishermen. The economically most important product of the fishing industry is caviar from Caspian Sea sturgeon. In the 1990s, the sturgeon catch declined as a result of over-fishing and poaching. Iran has an aggressive fish

nurseries program aimed at reversing the decline in Caspian fish stocks. Other products of the fishing industry are tuna, the sardine-like kilka, trout, and shrimp.

Iran has only about 1 percent forest cover. The major commercially useful forests are located in the Alborz Mountains, especially on the southern slopes above the Caspian Sea coast. Smaller forests, principally of oak and other deciduous trees, are scattered throughout the western and central Zagros Mountains. Iran is a net importer of timber products. Illegal clear cutting and clearing for agriculture have depleted forests in the Alborz, and government replanting programs have been hindered by illegal harvesting of trees.

Mining and Minerals: In 2003 Iran's already sizable oil reserves were bolstered by the discovery of a huge new field near Bushehr on the Persian Gulf. The centers of copper extraction are Kerman and Bafq. Iran has an estimated 5 percent of the world total of copper, and production of that metal has increased rapidly since 1993. Some 128,500 tons were extracted in 2000–01. Other major metal ores are aluminum, uranium, and zinc.

Industry and Manufacturing: Iran's manufacturing output was reduced during the 1978–79 Revolution, but the 1980–88 war with Iraq had the indirect consequence of increasing industrial production. In the 1990s, growth was hindered by low private investment levels, although government expenditures based on revenues from high world oil prices stimulated public investment and also directly stimulated consumer demand and the petrochemicals industry. That industry, dominated by the state-owned National Petrochemicals Company, has grown rapidly, with output in 2002 worth US\$1.4 billion. The industry has received substantial foreign investment. The steel industry, centered in Ahwaz, Esfahan, and Mobarakeh, also has grown rapidly since 1990. The output goal for 2004 was 8.5 million tons. Automobile manufacture has benefited from licensing agreements with European and Asian manufacturers, particularly Peugeot, Hyundai, and Nissan. The largest plant, Iran Khodrow, builds about 260,000 units per year, and several smaller facilities produce a total of about 140,000 vehicles. Processing of agricultural products also is an important industry and is dominated by domestic private firms. Among the major subsectors are grain processing and fruit and vegetable canning. The textiles industry, based on domestic cotton and wool, employed about 400,000 people in 2000. The construction industry has grown rapidly since 2000 because of government investment in infrastructure projects and increased demand for private housing.

Energy: By 2003 the addition of new hydroelectric stations and the streamlining of conventional coal- and oil-fired stations increased installed capacity to 33,000 megawatts, more than 95 percent of which was based on fossil fuels. Demographic trends and intensified industrialization have caused demand to grow by 8 percent per year. The government's goal of 53,000 megawatts of installed capacity by 2010 is to be reached by bringing on line new gas-fired plants financed by independent power producers, including those with foreign investment backing, and by adding hydroelectric and nuclear power generating capacity. Iran's first nuclear power plant at Bushehr, scheduled to come on line in 2002 but not completed as of September 2004, has received international criticism because of concerns that its enriched uranium and spent fuel can be diverted for the production of nuclear weapons.

Services: In the financial sector, Iran's banking system was nationalized in 1979, and private banks were not authorized to re-open until 2002. Accounts of the state-owned commercial banks are dominated by loans to state and *bonyad* enterprises and to large-scale private firms. Wealthy Iranians use foreign banks, especially for savings accounts. The trading of shares on the Tehran Stock Exchange was limited between 1979 and 1986, but activity has increased sharply since 2002. The tourism industry was disrupted by the 1978–79 Revolution and the Iran-Iraq War (1980–88) but began to revive in the 1990s. The majority of the 300,000 tourist visas granted in 2003 were obtained by Asian Muslims, who presumably intended to visit important pilgrimage sites in Mashhad and Qom. Several organized tours from Germany, France, and other European countries come to Iran annually to visit archaeological sites and monuments. Tourists spent more than US\$287 million in Iran in 2002.

Labor: In 2003 an estimated 2.7 million of Iran's labor force of 20 million were unemployed, and underemployment also was frequent. Skilled labor has been in short supply. In 2001 some 45 percent of the labor force was employed in services, 30 percent in agriculture, and 20 percent in industry. In 2003 the minimum wage was about US\$87 per month.

Foreign Economic Relations: Since 1996 the United States has maintained the Iran-Libya Sanctions Act, which is a full trade and financial transactions embargo against Iran, although the embargo was relaxed in 2000 to permit U.S. companies to import Iranian carpets, caviar, and pistachio nuts. Other countries, including members of the European Union (EU), have continued trade with Iran. The main purchasers of Iran's exports in 2003 were China, Italy, Japan, South Korea, and the United Arab Emirates (UAE). China recently has emerged as an important trade partner, replacing Germany, which has fallen from first to sixth place, as a buyer of Iranian exports. The main source countries for Iran's imports are France, Germany, Italy, South Korea, Switzerland, the UAE, and China. The main commodities imported are basic manufactures, chemicals, food (chiefly rice and wheat), and machinery and transport equipment. The main commodities exported are petroleum, carpets, chemical products, fruit and nuts, iron and steel, natural gas, and copper.

Trade Balance: In 2003 Iran's estimated income from exports was US\$28.2 billion, of which 85 percent came from petroleum and gas. The estimated payment for imports was US\$23.8 billion, yielding a trade surplus of US\$4.4 billion. Between 2001 and 2003, Iran's import total increased substantially, cutting its trade surplus from US\$13.4 billion.

Balance of Payments: In 2003 Iran's current account balance, determined mainly by its merchandise trade surplus and its smaller services trade deficit, was US\$3.7 billion. Its foreign exchange reserves, determined primarily by oil prices, were estimated at US\$21.1 billion in 2002. Records on portfolio investment are not available, and foreign direct investment has remained relatively small. In 2000 (the most recent figure available), the overall balance of payments was US\$1.1 billion.

External Debt: In 1991 Iran's external debt was estimated at US\$23 billion. During the next decade, Iran paid the debt down, reaching US\$7.8 billion in 2001. Subsequently, the debt has risen as international borrowing has increased. The 2003 estimate was US\$10.2 billion.

Foreign Investment: Foreign investment has been hindered by unfavorable or complex operating requirements in Iran. Foreign investors have concentrated their activity in a few sectors of the economy: the oil and gas industries, vehicle manufacture, copper mining, petrochemicals, and pharmaceuticals. The most active investors have been British, French, Japanese, South Korean, Swedish, and Swiss companies.

Currency and Exchange Rate: The value of the rial, Iran's unit of currency, declined substantially between 2002 and 2004. In 2002 a multiple exchange rate was replaced by a single floating rate. As of August 2004, the rate was 8,725 rials to the U.S. dollar.

Fiscal Year: Established by the Iranian calendar, the fiscal year begins March 21.

TRANSPORTATION AND TELECOMMUNICATIONS

Overview: The constant construction and expansion of the road and rail networks, even during the Iran-Iraq War (1980–88), have resulted in an overland transportation system that generally is adequate for freight and passenger demands. Ports destroyed during the war have been rebuilt, and new ones on the Caspian Sea and Persian Gulf have been developed. Air transportation is relatively inexpensive, and all large cities and many smaller ones have airports with regularly scheduled daily flights.

Roads: Under Reza Shah Pahlavi (ruled 1925–41), a construction program provided Iran with a national system of roads. The road system was expanded in the 1960s and 1970s. After the 1978-79 Revolution, road construction programs focused on connecting rural areas to provincial cities. Since 1989, road construction has stressed ring roads around large cities and multi-lane highways between major metropolitan areas. The three national auto routes are the A-1 across northern Iran from the Turkish border on the west to the Afghan border on the east, and connecting Tabriz, Tehran, and Mashhad; the A-2 across southern Iran from the Iraqi border on the west to the Pakistani border on the east; and the Tehran-Qom-Esfahan-Shiraz highway, which traverses central Iran from north to south. In 2003 Iran had a total of 103,000 kilometers of paved roads and 79,000 kilometers of graded, unpaved roads. Subsidized gasoline supplies and increased domestic automobile manufactures have spurred overcrowding of the road system.

Railroads: The rail system, which originally was constructed in the 1930s, has been undergoing constant expansion since 1989. The five main lines of the system radiate from Tehran: one runs south to Khorramshahr and Abadan at the head of the Persian Gulf; one runs south to the Strait of Hormuz at Bandar-e Abbas; one runs southeast to Kerman, with a planned route under construction farther east to Zahedan, which already is connected to the Pakistan State Railways; one runs east to Mashhad and connects with the Central Asian system on the Turkmenistan border, and includes a spur to the eastern side of the Caspian Sea; and the fifth line runs northwest to Tabriz and the border with Turkey, where it connects to the Turkish State Railroad and includes a spur north of Tabriz to Azerbaijan's Nakhichevan enclave. In 2002 Iran had a total of 7,201 kilometers of rail line, of which 146 kilometers were electrified and 94 kilometers at the borders of Azerbaijan and Turkmenistan were broad rather than standard gauge. Tehran

also has a combined underground and surface rail commuter system, and similar systems are under construction in Esfahan and Shiraz.

Ports: In 2003 about 20 million tons of cargo passed through Iran's ports. About 75 percent of that amount went through Bandar-e Abbas on the Strait of Hormuz. In the Iran-Iraq War (1980–88), destruction and Iraqi occupation of Khorramshahr on the Iraq border caused that city to lose its status as Iran's busiest port, giving greater importance to Bushehr and Bandar-e Lengeh on the Persian Gulf and Chah Bahar on the Gulf of Oman, as well as to Bandar-e Abbas. The main oil terminal is Khark Island, located 25 kilometers offshore in the northeastern Persian Gulf. Since 1992, Caspian ports have handled more trade as commerce with the Central Asian countries has increased. Modernization projects are underway in Bandar-e Anzeli on the Caspian Sea and Chah Bahar. A national shipping line has routes in the Persian Gulf and Caspian Sea.

Inland Waterways: Iran has 904 kilometers of inland waterways. The most important is the 193-kilometer-long Shatt al Arab (Arvanrud in Persian), which is formed in Iraq by the confluence of the Tigris and Euphrates rivers and then forms the Iran-Iraq border until it flows into the Persian Gulf. Abadan and Khorramshahr are located along the Shatt al Arab; both were destroyed during the Iran-Iraq War (1980–88) and have not recovered their pre-war economic importance, although they have been reconstructed.

Civil Aviation and Airports: In 2003 Iran had 303 commercial airports, of which 125 had paved runways. Of those, 39 had runways longer than 3,000 meters. International airports are located at Tehran, Bandar-e Abbas, and Shiraz, and on the islands of Kish in the Persian Gulf and Qeshm in the Strait of Hormuz. Other major airports are located at Ahvaz, Esfahan, Mashhad, and Tabriz. In 2003 Iran had 13 heliports. The national airline, Iran Air, serves 15 cities in Iran with connections to the Persian Gulf and European and Asian cities. The second-largest carrier, the private Asseman Airlines, connects the largest domestic cities with destinations on the Persian Gulf and elsewhere in Asia. Since the early 1990s, air travel in Iran has increased significantly on an annual basis, and by 2003 more than 1 million passengers used airplanes annually.

Pipelines: In 2003 Iran had 16,998 kilometers of natural gas pipeline, 8,256 kilometers of oil pipeline, 7,808 kilometers of pipeline for refined products, 570 kilometers of pipeline for liquid petroleum gas, and 212 kilometers for gas condensate. Iran's central pipeline infrastructure is designed for the distribution of natural gas for domestic use and for the domestic transit of oil, including from offshore oil fields to processing centers. That structure has been supplemented as the natural gas industry and the fuel export industry expanded. Since 2000 several plans for new natural gas pipelines have been made; some have failed because of geopolitical considerations (for example, U.S. opposition to Iran playing a key role in delivering Central Asian oil and gas to the West) and some, such as the gas export line from Iran to Turkey, function at reduced capacity.

Telecommunications: Most phases of telecommunications services are controlled by the state Telecommunications Company of Iran (TCI). In the 1990s, the number of telephone land lines increased from 40 to 149 per 1,000 population. The goal of the Third Five-Year Plan is to increase this ratio from the 2002 figure, 170 per 1,000, to 224 per 1,000 by 2005. A large-scale

modernization program, backed by heavy state investment, aims at improving and expanding urban service and reaching rural areas that lack telephone service. In 2004 some 3.4 million cellular telephones were in operation through one mobile network. A second privately owned mobile network operated by the Turkish company Turkcell was awaiting final licensing approval in 2004. Internet use expanded rapidly in the early 2000s, from an estimated 250,000 users in 1999 to an estimated 7 million users in 2004. In 2002 some 3,400 Internet service providers (ISPs) were in operation.

GOVERNMENT AND POLITICS

Political System: In 1979 a national referendum approved a new constitution, for which several amendments were approved in 1989. The Islamic Republic of Iran is a republic with a separation of powers among the executive, judicial, and legislative branches. The overall system is supervised by a *faqih* (supreme expert in religious law), whose constitutionally stipulated role is to arbitrate disputes among the branches. The constitution named Ayatollah Khomeini as the first *faqih* by virtue of his role as leader of the 1978–79 Revolution. Successor *faqihs* are elected by a majority vote of the Assembly of Experts, a body of senior clergymen who are elected in national elections every four years. The Assembly of Experts elected then president Ali Khamenehi as *faqih* after the death of Khomeini in June 1989. The Assembly confirmed Khamenehi to continue as *faqih* in 1999. Among the responsibilities of the *faqih* are choosing the commanders of the military services, the head of the judiciary, and the directors of the semi-public foundations.

Executive Branch: The executive branch is headed by the president, who is elected in national elections every four years. The current president, Mohammad Khatami, was elected in 1997 and re-elected in 2001. A president is limited to two four-year terms. The relationship between the president and the *faqih* is complicated. During the presidency of Ali Akbar Hashemi Rafsanjani (1989-97), his strong personality made him the most authoritative person in the political system, and Khamenehi acquiesced to his policies. In contrast, Khatami's reluctance to engage in confrontational politics has enabled conservatives opposed to his policies to promote the authority of the *faqih* as superior to that of the president. Since 2000, this situation has irritated many reform politicians. Although some advocate the legal codification of the powers of the *faqih*, Khatami has declined to take a public position on the role of *faqih* in political matters. In terms of governance, the president appoints the heads of the ministries, who make up the cabinet, and as many vice presidents as he deems necessary. All ministers are actually nominees who must be approved and confirmed by the parliament.

Legislative Branch: The parliament is a bicameral legislature, consisting of the Majlis and the Council of Guardians. The Majlis comprises 290 deputies who are elected for four-year terms on the basis of universal suffrage. Five of these seats are reserved as special representatives for officially recognized religious minorities: two for Armenian Christians and one each for Assyrian Christians, Jews, and Zoroastrians. The Majlis may both propose and pass legislation, and the executive branch cannot dissolve it. However, all bills passed by the Majlis must be reviewed by the 12-member Council of Guardians to ensure that they are consistent with the constitution and with Islamic principles. Members of the Council of Guardians must be lawyers;

six members are appointed by the *faqih*, and six members are appointed by the Majlis. If the Council of Guardians finds a bill compatible with the constitution and Islam, the bill becomes law; if it finds a bill partially or wholly unconstitutional or un-Islamic, the bill is sent back to the Majlis for revision. Since the first post-revolutionary Majlis, which was elected in 1980, there has been conflict between the Majlis and the Council of Guardians over legislation that the latter has vetoed. Because of this tension, in 1987 Khomeini established a new institution, the Expediency Council, which has authority to resolve disputes between the Majlis and the Council of Guardians. In practice, the Expediency Council has upheld some Council of Guardians vetoes, overridden others, and sent back some vetoed legislation with the admonition that the Majlis and Council of Guardians work out acceptable compromises. This pattern continued in both the Rafsanjani and Khatami administrations.

Judicial Branch: The highest judicial authority is the State Supreme Court, members of which are appointed by the head of the judicial branch. That individual, appointed to a five-year term by the *faqih*, also approves the candidate list from which the president chooses a minister of justice. The Supreme Court oversees enforcement of the laws by lower courts, sets judicial precedent, and acts as a court of appeal for military and common and revolutionary courts. The Supreme Court has 33 regional branches. The chief justice of the Supreme Court, appointed by the *faqih* to a five-year term, must be a Muslim cleric and judicial expert. The two most active courts are the traditional courts, which hear civil and criminal cases, and the Islamic revolutionary courts, which try offenses against national security, drug trafficking, economic crimes, and official corruption. A Special Clerical Court tries Muslim clerics. Military and press courts hear specialized cases. The judges of all courts must be experts in Islamic law.

Administrative Divisions: Iran is divided into 28 provinces, administered by governors appointed by the minister of interior. A 2004 law would divide the largest province, Khorasan in the northeast, into three separate provinces. The provinces are subdivided into counties, districts, and villages. At the local level, elected city and village councils have exerted substantial authority since the first local elections in 1999.

Judicial and Legal System: The constitution provides for an independent judiciary. Defendants have the right to public trial, choice of a lawyer, and appeal. All trials are heard by panels of judges; a jury system is being experimented with in some specialized courts, such as the Press Court. Judicial authority is concentrated in the judge, who also acts as prosecutor and investigator to the exclusion of legal counsel. The Islamic revolutionary courts deal with suspected crimes against national security and have authority to hold suspects for long pre-trial periods and to deprive them of counsel. Charges often are vague, such as “anti-state activity” or “warring against God,” and lawyers have complained of being harassed and even imprisoned. The Special Clerical Court deals with crimes committed by members of the clergy, including what can be termed ideological offenses, that is, interpretations of religious dogma that are not acceptable to the establishment clergy.

Electoral System: Suffrage is universal at age 15. Direct elections every four years choose the Majlis, the president, local councils, and the Assembly of Experts. Because these elections are not held simultaneously, however, Iranians generally go to the polls every year to vote in a national election. Candidates for office at any level may simply declare themselves by filing a

registration form and paying the nominal fee. The Ministry of Interior and the Council of Guardians vet candidates by setting up local committees that review the qualifications of the candidates. Important qualifications are having a history of participating in the 1978-79 Revolution and having a reputation for being a devout Muslim and observing Islamic law. Postsecondary education also is relevant for national office. Although one-half or more of the initial candidates may get disqualified in the screening process, enough are approved so that every election has had multiple candidates. In the most recent Majlis elections in February 2004, more than 2,700 candidates competed for 290 seats. The conservatives were able to solidify their hold on parliament because they were more unified than their opponents; many seats were contested by more than one reformist candidate, thus splitting the pro-reformist vote.

Politics and Political Parties: Official political activity is permitted only to groups that accept the principle of political guidance known as *velayat-e faqih*. Political parties were legalized in 1998, and at least 25 were present in the Sixth Majlis (2000–2004). Eighteen of these parties joined in a broad coalition called the Dovum-e Khordad Front. These were all reformist parties that supported the political and economic proposals of President Khatami; internal differences over many specific economic policies hampered the Front's effectiveness, however. The Conservatives have been more united in recent years, although there are three major parties, of which Builders of Islamic Iran emerged as a political force by winning a majority of Majlis seats in the 2004 elections.

Mass Media: The constitution guarantees freedom of the press, provided that published material complies with Islamic principles. In 1997 and 1998, the Ministry of Culture and Islamic Guidance relaxed regulations for publishing licenses and issued several hundred licenses, which led to the emergence of scores of new newspapers and journals, most of which promoted reformist causes. Conservatives reacted by suing individual papers and publishers for libel, and in the year 2000 succeeded in getting the Press Court to suspend, temporarily or permanently, several dozen newspapers. However, reformist publications continue to express views on many contentious issues. The newspapers with the largest circulation are published in Tehran and include the reformist *Ham-shahri* and *Yas-e now* and the conservative *Jomhuri-e Islami*, *Keyhan*, and *Resalat*. The state news service is the Islamic Republic News Agency, which publishes the English-language *Iran Daily*. Several foreign news agencies maintain offices in Tehran, including Agence France Press, Deutsche Press, and Reuters. Radio 1 in Tehran is the most powerful radio station. Radio and television broadcasting is controlled by the state's Islamic Republic of Iran Broadcasting company. In 2003 the government assigned a commission to monitor online news sites.

Foreign Relations: The election of Khatami in 1997 led to improved relations with Iran's neighbors and with most of the West, excluding Israel and the United States. The Khatami government has stressed commercial and geopolitical relations with Western Europe and Japan, which have opposed the U.S. Iran-Libya Sanctions Act banning major investment by third countries in Iran's energy resources. Foreign relations have been an area of consensus among conservatives and reformers since the late 1980s. There have been quiet efforts to have a dialogue with the United States in areas of mutual interest such as policy toward the Taliban in the late 1990s and encouraging Iran's Afghan ally, the Northern Alliance, to cooperate with the United States after September 11, 2001. But these "overtures" have not resulted in any

normalization of U.S.-Iranian relations, which remain strained as a result of U.S. suspicions that Iran is supporting Palestinian groups opposed to the peace process with Israel. The Bush administration's inclusion of Iran as one of the three "Axes of Evil" in 2002 brought U.S.-Iranian non-relations to a new low in the post-1989 period. In mid-2004, relations deteriorated further as a result of a growing conviction among U.S. officials that Iran has a nuclear weapons program and is close to having the capability of developing a nuclear bomb. The Bush administration also has expressed concern that Iran might be supporting insurgents in Iraq.

Since the overthrow of Iraqi President Saddam Hussein in 2003, Iran has not developed a coherent policy toward neighbor Iraq, with which Iran did not sign a peace treaty following the war of 1980–88. Relations with other regional Arab countries vary from correct or relatively good (e.g., Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates) to relatively strained (e.g., Algeria, Egypt). Iran also has relatively good relations with China, India, and Russia, and correct, but not close, relations with neighbors Pakistan and Turkey.

Membership in International Organizations: Iran is a member of the following international organizations: Colombo Plan, Economic Cooperation Organization, Food and Agriculture Organization, Group of 24, Group of 77, International Atomic Energy Agency, International Bank for Reconstruction and Development, International Civil Aviation Organization, International Control Commission, International Criminal Police Organization (Interpol), International Federation of Red Cross and Red Crescent Societies, International Finance Corporation, International Fund for Agricultural Development, International Labour Organization, International Monetary Fund, International Organization for Migration, International Telecommunication Union, Islamic Development Bank, Organization for the Prevention of Chemical Weapons, Organization of Petroleum Exporting Countries, Pollution Control Agency, United Nations, United Nations Committee on Trade and Development, United Nations Educational, Scientific and Cultural Organization, United Nations Office of the High Commissioner for Refugees, United Nations Industrial Development Organization, Universal Postal Union, World Confederation of Labor, World Federation of Trade Unions, and World Health Organization.

Major International Treaties: Iran is a signatory to the following international treaties: the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal; Comprehensive Nuclear Test Ban Treaty; Convention on Biological Diversity; Convention on the International Trade in Endangered Species of Wild Flora and Fauna; Convention on the Prevention of Marine Pollution by Dumping Wastes and Other Matter (London Convention); Convention on the Prohibition of the Development, Production, and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction; Convention on the Prohibition of the Development, Production, and Stockpiling of Chemical Weapons and on Their Destruction; International Atomic Energy Agency Safeguards Agreement; Montreal Protocol on Substances that Deplete the Ozone Layer; Partial Test Ban Treaty; Ramsar Convention; and Treaty on the Non-Proliferation of Nuclear Weapons.

NATIONAL SECURITY

Armed Forces Overview: The armed forces, under a unified command with the *faqih* as commander in chief, include about 520,000 active personnel. Since 1997, the armed forces also have included the 120,000-strong Revolutionary Guards. The main policy goal is to modernize and streamline all forces to prepare for possible action on two fronts. Modernization of the navy, seen as vital for protecting Persian Gulf oil-exporting routes, is an especially high priority. Iran has purchased submarines and surface vessels from abroad and manufactures tanks, artillery, medium-range missiles, and helicopters.

Foreign Military Relations: In 2001 Iran signed a ten-year military-technical agreement with Russia, including assistance in aircraft maintenance and design, worth an estimated US\$4 billion. In 2002 Iran signed a defense cooperation agreement with India. The latter agreement allows India to use Iranian military facilities in a war with Pakistan.

External Threat: In 2003 the removal of Saddam Hussein from the presidency of Iraq eliminated a major regional threat, although during the 1990s United Nations sanctions on Iraq limited the possibility of conflict. The events of 2003 replaced Saddam's threat with a large-scale, long-term presence by the United States, a country that Iran considers its primary enemy. That event compounded the worry caused by the entry of U.S. forces into Afghanistan, to Iran's east, in 2001. Iran also considers Israel as a major threat because the latter country often has threatened an air strike against Iran's nuclear facility at Bushehr.

Defense Budget: Iran's defense budget for 2003 was US\$4.2 billion, which was double the budget for 2001. The 2002 budget was US\$3.4 billion. Between 2000 and 2002, defense expenditures rose from 3.3 percent to 4.8 percent as a percentage of gross domestic product (GDP).

Major Military Units: In 2004 the army had about 350,000 active personnel, assigned to four armored divisions, six infantry divisions, two commando divisions, one airborne brigade, and five artillery groups. The navy, with about 18,000 active personnel, operates bases at Bandar-e Abbas, Bushehr, Khark Island, Bandar-e Anzelli, Bandar-e Khomeini, Bandar-e Mahshahr, and Chahar Bahar. The air force has about 52,000 active personnel, assigned to nine ground-attack fighter squadrons, five fighter squadrons, and one reconnaissance squadron. In addition, the ground forces of the Revolutionary Guards (120,000 personnel) include an estimated two armored, five mechanized, and ten infantry divisions, and the naval forces operate seven bases. The Revolutionary Guards also include one brigade of marines.

Major Military Equipment: The army has 1,565 main battle tanks, 350 armored infantry fighting vehicles, 300 armored personnel carriers, 2,085 pieces of towed artillery, 310 pieces of self-propelled artillery, 889 multiple rocket launchers, 5,000 mortars, 17 surface-to-surface missiles, 75 antitank guided weapons, and 1,700 air defense guns. The navy has 3 submarines, 3 frigates, 56 patrol and coastal combatants, 7 mine warfare vessels, and 9 amphibious vessels. The air force ground-attack fighter units have F-4D, F-4E, F-5E, Su-24MK, Su-25K, and Mirage F-1E aircraft; the fighter units have F-14, F-7M, MiG-29A, and MiG-29UB aircraft. The air force also has 32 helicopters.

Military Service: Males are legally eligible for conscription at age 21 for an active service term of 21 months, followed by voluntary reserve service. However, many males begin service at age 18. About 80 percent of army personnel are conscripts, as is the case with 60 percent of the Revolutionary Guards; navy and air force personnel are mainly volunteers.

Paramilitary Forces: The volunteer paramilitary force, the Popular Mobilization Army, or Basij, includes an estimated 250,000 reserves and about 40,000 active-duty personnel. The Basij are under the authority of the Revolutionary Guards.

Military Forces Abroad: In 2004 Iran had about 150 Revolutionary Guards personnel in Lebanon and military advisers in Sudan.

Police: About 40,000 police serve under the Ministry of Interior, including border patrol personnel.

Internal Threat: Despite strong government countermeasures, Iran is a main transit country for opium products from neighboring Afghanistan. Considerable quantities of these narcotics are sold illegally in Iran and are the main source of a serious and growing addiction problem. The Iraq-based Mojahedin-e Khalq (National Liberation Army) seeks the removal of the Iranian regime by armed action, and its methods include the use of terrorist tactics. However, its activities inside Iran have been minimized by a domestic crackdown and by the fall of its patron, Saddam Hussein. Smaller insurgent groups are the People's Fedayeen, Democratic Party of Iranian Kurdistan, and Komala. The Paris-based National Council of Resistance of Iran is the umbrella group of the Mojahedin-e Khalq for overseas opposition groups.

Terrorism: Between 1997 and 2003, Iran experienced only two or three domestic terrorist incidents annually, but there were at least six incidents during the first half of 2004, with scores of casualties. Although Iran has consistently condemned all terrorist actions abroad, including those in Israel, both Israel and the United States contend that Iran has supplied funding, safe havens, training, and weapons for the Lebanese Hezbollah and Palestinian groups such as Hamas and the Palestine Islamic Jihad. In September 2004, the Bush administration also expressed concern that Iran might be providing support to Iraqi insurgents.

Human Rights: Major international human rights organizations cite Iran as a country where human rights abuses occur in the judicial system, especially in prisons where persons accused of political offenses are detained. Specific violations cited include arbitrary arrest, lack of due process, denial of access to attorneys, restrictions on family visits, prolonged periods in solitary confinement, and the imposition of inhumane punishments such as beatings. The U.S. Department of State's annual report on human rights practices also identifies several areas of concern related to freedom of religion, press, speech, and political association.